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TO RUEHC/SECSTATE WASHDC 9453
INFO RUEHAC/AMEMBASSY ASUNCION 5896
RUEHBO/AMEMBASSY BOGOTA 3208
RUEHBR/AMEMBASSY BRASILIA 7057
RUEHBU/AMEMBASSY BUENOS AIRES 4311
RUEHCV/AMEMBASSY CARACAS 1604
RUEHPE/AMEMBASSY LIMA 1596
RUEHME/AMEMBASSY MEXICO 1712
RUEHNM/AMEMBASSY MONTEVIDEO 3824
RUEHQT/AMEMBASSY QUITO 4238
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RUEANHA/FAA NATIONAL HQ WASHINGTON DC
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STATE FOR EB/TRA JHORWITZ AND EB/TRA/OTP BMATTINGLEY
STATE ALSO FOR WHA/AND LPETRONI
STATE PASS TO FAA FOR CCAPESTANY
STATE PASS TO DOT FOR CCOLDREN
COMMERCE FOR JANGLIN

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TAGS: [FAIR](#) [ECON](#) [PGOV](#) [CASC](#) [BL](#)
SUBJECT: LLOYD: CLOSER TO COLLAPSE

REF: LA PAZ 1078

¶1. (SBU) Summary: Bolivia's national airline, Lloyd Aero Boliviano, moved closer to collapse following the chief executive's failed attempt to relinquish ownership to employees. In a bizarre turn of events June 3, disgruntled pilots accosted two members of the company's board of directors and held them hostage for four hours; one of the hostages was Cochabamba Consular Agent William Scarborough, who was acting in his capacity as president of Lloyd's audit committee. Scarborough told the Ambassador the hostage-taking was not related to his affiliation with the Embassy but seemed to stem from the increasing radicalism of Lloyd's pilots' union. Scarborough added that there was little hope the airline could avoid bankruptcy. End summary.

¶2. (SBU) Bolivia's national airline, Lloyd Aero Boliviano, moved closer to collapse late last week, following Chief Executive Ernesto Asbun's failed attempt to transfer his 52 percent ownership of the firm to employees. According to Paula McKenzie, Lloyd's Regional Manager for La Paz and Cochabamba, Asbun agreed to relinquish his shares free of charge - partly as a result of workers' failure to raise the \$1.5 million needed for the transaction - in return for protection from criminal prosecution and freedom from company liabilities. The pilots' union objected to the transfer of shares to all employees, apparently seeking to exclude workers loyal to Asbun and assume control of the airline themselves.

¶3. (SBU) In a bizarre turn of events June 3, disgruntled pilots accosted two members of the company's board of directors at Cochabamba's Hotel Portales and held them hostage for four hours; one of the hostages was Cochabamba Consular Agent William Scarborough, who was acting in his capacity as president of Lloyd's audit committee. A 200-strong crowd of protesters smashed the windows of Scarborough's car and physically attacked his colleague, Acting President of the Board Javier Jimenez. Police

eventually intervened, and both men were released.

14. (SBU) Scarborough told the Ambassador and Econoff June 5 that the hostage-taking was not related to his affiliation with the Embassy but seemed to stem from the increasing radicalism of Lloyd's pilots' union. According to both Scarborough and McKenzie, Lloyd executives now find it almost impossible to negotiate with the group, whose members have reportedly occupied company offices, threatened the lives of Lloyd executives, and prevented many from going to work. Both said the hostage-taking would likely hinder attempts to save the airline from bankruptcy, as it had further disrupted operations and would undermine efforts to reach an amicable solution.

15. (SBU) Comment: Given Lloyd's dire situation, it is hard to see how it might survive. According to McKenzie, the carrier is operating only three aircraft - down from eight earlier this year - and has cancelled international flights and many domestic services. Revenues have dropped 80 percent since December 2005, and monthly losses of \$5 to \$6 million have deepened multi-million dollar debts to Bolivian pension funds and government entities, Lloyd employees, insurance firms, suppliers, and U.S. aircraft leasing companies. Lloyd is unable to pay for fuel and will likely forfeit its aircraft insurance policy, now set to expire June 15. If this happens, the carrier will lose its legal authority to operate aircraft, and bankruptcy may remain its only option - to the dismay of its more than 2,200 employees. End comment.
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